The Theory of Transaction in Institutional Economics: A History. By Massimiliano Vatiero. London and New York: Routledge, 2021. xii, 92 pp. $128.00.

Transactions do not have a natural definition, George Stigler once observed. Perhaps none is needed, because the terms "transaction" and "exchange" are synonyms. Tellingly, the *New Palgrave* entry on "exchange" uses the two words almost interchangeably, and none of the dictionary's editions contain an entry for "transaction." (There are entries on "transaction costs," including a useful one on the history of this concept.) For institutional economists, however, these terms denote different things. Simply put, a transaction involves a legal transfer of property or control rights over resources, while an exchange can merely involve a physical transfer of something. Transactions can include but are not limited to exchanges.

When John R. Commons proposed that the transaction was the constituent unit of economic activity and therefore the ultimate unit of economic investigation, this was the distinction that he made. Ronald Coase did not define a unit of analysis, but the same distinction was undoubtedly in his mind when he observed that factors of production, often characterized as physical entities, were more appropriately understood as rights to perform certain actions. For all their differences, Coase and Commons understood that these rights were what was effectively traded in markets (assuming some initial assignment). They also both understood that rights could alternatively be allocated by fiat within firms, or rearranged by courts, legislatures, and other organs of the state.

Contrary to what its subtitle might suggest, Massimiliano Vatiero's *The Theory of Transaction in Institutional Economics: A History* is not a historiographical reconstruction of

how Commons, Coase or other institutionalists came to develop or apply these insights. Although the book appears in the *Routledge Studies in the History of Economics*, and its stated aim is to provide a "historical conceptualization of the transaction" (xi), it does not rely on a historical record of any kind. Instead, weaving together the threads running through earlier publications, Vatiero expands on his proposal for a research agenda in institutional economics (Vatiero 2018) to offer a synthetic theoretical account of the multi-dimensional nature of the transaction. One might have expected such an account to be readily available, given extensive work on the topic by Oliver Williamson and others (not to mention several Nobel nods), but Vatiero provocatively argues that we still do not know enough about how a transaction works.

Partly because of the way Coase set the terms of the debate, there is a tendency to think of transactions as bilateral relationships (between, say, a rancher and a farmer, or General Motors and Fisher Body) within given rules of the game. This approach does a good job of isolating the reciprocal nature of harms or relationship-specific risks, but it does not account for the full range of factors shaping the transactors' choices. For example, it sets aside the possibility that transactors may deploy a variety of political means to change the rules of the game or affect their enforcement. Of course, there are political economy models dealing with such matters, but these, too, tend to conceptualize transactions between, say, firms and regulators, in bilateral terms.

What institutional economics needs, Vatiero believes, is a framework that can bring all of these elements together. Commons had proposed such a framework, but his "proper idea" (1) of the transaction was never quite understood and applied by Williamson—despite repeated references to Commons as a forerunner of transaction cost economics. Accordingly, if institutional economics is to advance, it must "go back to the past" (30). Commons's significant insight was that a transaction involves not two but a minimum of five interacting

parties. In addition to the two actual transactors, there are always at least two potential transactors, whose presence defines the opportunity costs of the transaction and affects the power the actual transactors can exercise over each other. And there is always a public official of some sort, whose role is to define and enforce the rules of the game and resolve any potential disputes. The crucial point is that each party affects every other party.

This setup, Vatiero explains, enables us to think about how transactors influence and are influenced by both the market (represented by the potential transacators) and the enforcement environment (represented by the public official). It highlights the fundamental connections between the legal, competitive, and political dimensions of transactions. It helps us zoom in on the microanalytics of the transactors' choices, in the spirit of Williamson's transaction cost economics, while also inviting us to zoom out to see the wider legal and political domains within which transactions are embedded, in line with various approaches emphasizing macro-institutional diversity (such as the varieties of capitalism). Looking at transactions through both the "miscroscope" and the "telescope" (8) thus allow us to bring multiple literatures together under the same theoretical umbrella.

This, at least, is my reading of Vatiero's main argument, which he lays out in the first two chapters of the book, before exploring the legal, competitive, and political dimensions of transactions in turn. The chapter on the legal dimension (Chapter 3) models the transactors' Hohfeldian rights (which are key to Commons's system) as positional goods, defined in zero-sum terms as goods for which the positive consumption by one agent is necessarily related to an equal negative consumption by another agent. Since a transactor's rights imply another's duties—transactions are characterized by a structure of mutual coercion, as Robert Lee Hale explained—assignments of rights are never neutral. Not surprisingly, transactors will attempt to secure new rights and influence the rights assignment and rearrangement process.

The next two chapters are meant to illustrate different aspects of this issue. The modelling proposed in the chapter devoted to the competitive dimension of transactions (Chapters 4) engages with the literature in the theory of the firm to look at how the availability of outside options, or lack thereof, affects the transactors' incentives to engage in relationship-specific investments or opportunistically push for the renegotiation of rights. Oliver Hart's view that residual control rights over specific assets ought to be allocated to the relatively more vulnerable transactor creates positional concerns, as the other transactor's incentives are correspondingly muted. Reassignments of rights thus come with costs and may not be desirable, particularly if the sorts of credible commitment devices highlighted by Williamson are available to transactors.

Vatiero moves to the corporate governance debate in the chapter focusing on the political dimension of transactions (Chapter 5). The bundles of rights held by various stakeholders in business corporations, and hence the balance of power within corporations, are often the products of competition among interest groups vying for various kinds of rents. Political choices supporting certain groups over others accumulate in path-dependent ways over time. Policies concerning labor protection, market concentration, and innovation are particularly relevant, and complementarities between these institutional domains imply that multiple equilibria are theoretically possible. Vatiero does not reproduce his own modelling of complementarities (e.g. Pagano and Vatiero 2015), but provides some empirical evidence supporting the idea that there are two dominant equilibria in advanced market economies.

The book ends with "one (just one, but remarkable) research proposal" (77), which is that the return to a Commonsian conceptualization of the transaction requires reconsidering what we think we know about transaction costs. From Vatiero's perspective, these costs come from the positional nature of rights and are often due to political dynamics. Future work, Vatiero concludes, should "study these transaction costs theoretically and empirically" (79).

It is a pity that Vatiero did not pursue this avenue himself. (Given how short the book is, space constraints were not an issue!) This would have allowed him to compare his view concerning the source of transaction costs with alternative explanations (Allen 1991; Klaes 2000; Medema 2020). For example, an interesting point that could have been made is that the costs arising from the positional nature of rights do not necessarily depend on assumptions about contracting or information. But I do not wish to blame the author for failing to achieve what he did not attempt.

Let me instead take Vatiero to task about something that he did do, not in some inconspicuous footnote, but in the book's opening sentence, which reads: "The transaction is the basic unit of analysis of institutionalism" (1). This leads him to infer that "transactions and their costs, or transaction costs," are the "main focus" of the institutionalist program (1). Commons and Williamson explicitly adopted the transaction as their unit of analysis, and Coase and Hale might well have agreed with this proposition. But while the idea of transaction costs was implicit in the some of the older institutionalist literature (Rutherford 2001), Hale or Commons would not have viewed themselves as concerned primarily with transaction costs. And contrary to the Coase-Williamson version of institutionalism, they neither assumed that institutions arise in order to economize on transaction costs nor reached that conclusion. Commons did write about efficiency, but he did not have allocative efficiency in mind.

It is also important to remember that Commons had a relatively minor impact on the development of postwar American institutionalism: most institutionalists followed the path broken by Thorstein Veblen and Clarence Ayres to focus on the dichotomy between institutions and technology, or some other version of that dichotomy (Ramstad 1995). The transaction is not exactly center stage in this literature. Thus Vatiero's claim regarding the centrality of transactions, and transaction costs, for institutionalism—understood as

comprising all varieties of institutional economics—seems largely overblown. It would have made more sense if he had explicitly excluded the Veblen-Ayres branch of institutionalism and limited the discussion to the institutional law and economics literature developed in the Commons-Hale tradition by Warren Samuels, A. Allan Schmid and Nicholas Mercuro (Samuels & Schmid 1981; Mercuro & Medema 1997). The opening sentence would have been less general but also much less objectionable.

The new institutional economics seems less fragmented that its counterpart. Yet there are notable differences between Coase and Williamson, which Vatiero fails to acknowledge. Williamson defines the transaction as a transfer of a good or service across a technologically separable interface. This helps him focus attention on the boundaries between firms or stages of production and serves his purpose of analyzing the determinants of the make-or-buy decision. But there is a clear sense in which his definition deviates from the concept of the transaction as a legal transfer of property or control rights over resources (Ramstad 1996; Furubotn and Richter 2005). Transactions in the sense of transfers of resources and transactions in the sense of transfers of legal control over resources are often related, but they are not the same thing. Arguably, the two notions also imply different conceptualizations of transaction costs.

Although the book's framing of institutionalism may be somewhat problematic and some subtleties seem to be lost, Vatiero is right to highlight some of the stronger connections between the Commons-Hale and the Coase-Williamson branches of institutional economics. Scholars working in the style of the older pair will of course note that Vatiero writes in the language of the new institutionalists. They will no doubt object that in his effort to paint in broad strokes the unifying features of institutionalism, Vatiero ignores vital methodological and philosophical differences. I suspect that Vatiero's response would be that dwelling on these differences, or presenting them as insurmountable incompatibilities, does not favor

dialogue. Opportunities for productive cross-fertilization and conceptual progress are foregone. I would second this sentiment.

Vatiero's liberal combination of insights from the old and new institutionalisms is characteristic of what might be called the Siena approach to institutional economics. Associated with Ugo Pagano and his students—among whom Vatiero—the Siena approach typically links utility and power with legal positions and relies on the concept of institutional complementarities to analyze institutional diversity and change. It also takes the history of economic thought seriously. This leads it to produce some of the most interesting institutional economics available today.

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